

Written Comments for the Record: Hearing for Certain Expiring Tax Credits

House Ways & Means Subcommittee on Select Revenue Measures

April 26, 2012

Thank you for the opportunity to provide written comments for the record on the hearing held in the subcommittee on April 26, 2012, on expiring tax provisions. On behalf of the 3,000 U.S. employees at Vestas, I urge an immediate extension of the renewable energy Production Tax Credit (PTC). Extending the PTC will ensure the continued development of wind energy and the domestic manufacture of wind turbines that will lead to a healthier economic and energy future for America.

Wind energy is a success story of which Congress can be proud. The PTC has been a very effective tool in driving a new energy economy in America. Due largely to the PTC, the wind industry now represents a manufacturing base that employs tens of thousands of U.S. workers in high-wage, high-skill jobs across the country. Predictable, long-term tax and energy policies are critical to the continued growth of wind energy as a low-cost domestic source of electricity in the U.S.

Vestas is the second largest wind turbine manufacturer in the U.S. and the number-one global wind manufacturer, as measured by wind turbines installed. We design, manufacture and supply wind turbines for wind power plants around the world, and are proud to be a significant part of the manufacturing renaissance happening in this country. We do not develop or own wind power plants in North America.

The Vestas parent organization is based in Denmark with a 100-year history of making heavy equipment. Our U.S. headquarters are in Portland, Oregon, and our presence is felt in nearly 40 U.S. states. Our U.S. operations include:

- Four manufacturing facilities producing industrial-scale blades, nacelles and towers
- Three technology research and development facilities
- Servicing more than 4,000 wind turbines at more than 100 wind parks
- 20 construction sites in 11 states in 2012
- Warehouse and repair facilities
- Procurement of supplies and components
- Sales and back-office organization

We have been doing business in the U.S. for more than 30 years, supplying more than 11,000 wind turbines in 26 states. This represents more than 9,600 MW of new, clean, secure domestic energy supply providing enough electricity to power about 2.9 million American homes.

Economic Impact of the PTC

From 2008 to 2011, the U.S. experienced an enormous increase in wind energy development. This three-year window with consistent tax policy in place has been the longest timeframe the industry has ever had to make investment decisions. Investments in wind energy have been between \$10 billion to \$20 billion per year since 2008.

During this period, there has been a significant increase in domestic wind energy manufacturing capacity, largely due to the stability of the longer-term tax policy regime. Vestas alone constructed four manufacturing facilities and our technology and research centers, and developed our entire supply chain, investing more than \$1 billion in the U.S. economy.

Our American manufacturing base not only serves the U.S. market, but also exports products to Canada, Mexico, and Brazil, among other countries. The PTC has helped drive our American export business. With the robust U.S. wind market engendered by the PTC, we were able to size our manufacturing plants where we could support an export market, too.

We are proud to employ more than 1,800 Americans at our Colorado facilities, almost all of whom were hired from 2008 to the present. At full operating capacity, those factories can employ more

than 2,500 people. These are skilled-labor positions that pay competitive wages with generous medical and retirement benefits. Without a longer term PTC in place, Vestas will not be able to ramp up these plants to full capacity. Unless conditions change, after completing the manufacture of turbines under order for 2012 delivery, we will have to make tough decisions on whether we can continue to employ the number of people currently working for us in these plants and in other U.S. facilities.

Vestas also creates jobs in rural America. We have more than 800 skilled technicians who provide service for our installed turbines. Our technicians and their families live and work in rural areas where the turbines are typically installed — places that have been hit hard by the economic recession.

Wind energy is a major American industry, maturing into a mainstream energy source. We at Vestas, just like other manufacturers, have brought thousands of new jobs and billions in new investment to America.

Long-term Policy Support Necessary

The development cycle of wind projects begins well before the turbines are installed. Project conceptualization to completion can take two to three years. Wind developers require months to site their projects, negotiate power-purchase agreements and obtain necessary permits. Only when these prerequisites are well in hand do they issue bids for turbines. The turbine bidding and contract negotiation process can take months. Most orders from our customers are placed at least one year in advance of project completion because manufacturers need significant lead time to schedule, acquire and assemble the thousands of component parts needed to build a wind turbine.

We build wind turbines based on orders from our customers, and each order is unique. Once a turbine is built, it must be transported to the site, constructed and tested. Like the construction of any modern power plant, the development of a wind project entails considerable site preparation and earth-moving operations, complex logistics, and heavy construction.

The timeline for project development from turbine order to a wind farm producing electricity is typically 12 to 18 months. That does not include all of the regulatory and siting approvals that developers must secure before completing an order with a turbine manufacturer such as Vestas. For example, the turbines that Vestas and other manufacturers will deliver and install by the end of 2012 were actually ordered in 2010 and 2011.

Vestas has built a supply chain stretching from coast-to-coast. There are more than 8,000 component parts in a wind turbine. Vestas works with more than 90 U.S. components suppliers in 30 states. The domestic content of one class of Vestas wind turbines has grown to 80 percent, and the industry average exceeds 60 percent. This is a huge increase in the past few years and a direct indicator of how many manufacturing jobs have been created in the United States. These companies provide the thousands of component parts needed to construct a wind turbine. For example, a significant amount of the steel in our towers and nacelles is produced in North Carolina steel mills. We purchase lubricants, electrical components, and hydraulics from Texas. Cranes and welded materials are sourced out of Iowa. We recently entered into an agreement to purchase gearboxes from a supplier that has built a new manufacturing facility in Georgia. Each of these suppliers will be directly impacted if the PTC is not extended, and the communities in which they do business will feel the pain of the downturn in business.

Extending the PTC now will allow wind power plant developers to place orders for 2013. Currently, few, if any, 2013 orders are being placed. This impacts not only the manufacturer but the supply chain as well. We order component parts based on the market we anticipate, often before orders are placed. Suppliers require significant lead time to ensure they have produced the parts

necessary to meet our customers' needs. When orders slow down due to a looming expiration of the PTC, our suppliers' businesses suffer.

Uncertainty is Halting Investment

Nothing is more unsettling to our business than lack of regulatory and fiscal certainty. Vestas interacts with North American wind developers on a daily basis. Although the PTC does not expire until the end of 2012, the impact is being felt now. We have already heard from some of the largest wind developers that they will significantly reduce — or even stop — placing any new turbine orders until there is certainty the PTC will be extended beyond 2012. Some of these developers, including the largest in North America, NextEra, have announced their decision not to invest in wind energy in the U.S. through public filings with the Securities and Exchange Commission and in discussions with the investment community. They are turning their wind energy investment dollars to other countries around the globe.

The looming expiration of the PTC forces companies to make hard decisions today. In anticipation of fewer domestic installations, we have already seen layoffs by wind power plant developers and the supply chain. Unless an extension is approved quickly, there will be more. A report released on December 12, 2011, by Navigant Consulting, a respected non-partisan consulting firm, estimates 37,000 domestic jobs could be lost if the PTC is not extended. That is a significant number, and many communities across the country would be impacted. An immediate extension of the PTC would alleviate companies from having to make difficult decisions to terminate employees, and would instead allow those companies to focus on driving new investments and creating new jobs.

The PTC has always enjoyed bipartisan support, similar to many other tax credits that have incentivized the development of energy technologies. We sometimes get caught up in political discussions about various forms of energy. Extending the PTC is not about green, or red or blue, for that matter. It is about American manufacturing, American jobs and investing in American energy. If you truly believe in an "all of the above" energy strategy for America, then we must extend the PTC and continue to tap wind energy, one of our most abundant domestic resources along with other renewable and traditional energy assets.

Jon Chase
Vice President, Government Relations
Vestas-American Wind Technology, Inc.
900 17th Street, NW Suite 1200
Washington, DC 20006
202-955-0093
joche@vestas.com